

Michael P. Morris, Chairman
Kevin S. Carter, Director

MINUTES OF THE MEETING OF THE
SCHOOL & INSTITUTIONAL TRUST LANDS ADMINISTRATION
BOARD OF TRUSTEES

DATE: OCTOBER 19, 2006

PLACE: SALT LAKE CITY, UTAH

ATTENDING: BOARD

Michael P. Morris
Michael Brown
James Lee
Gayle McKeachnie
John Scales

STAFF

Kevin S. Carter
John Andrews
Ric McBrier
Kim Christy
Tom Mitchell
Tom Faddies
Dave Hebertson
Lisa Schneider
Jeff Roe
Drake Howell
Michelle McConkie
Elise Erler
Curt Gordon
Ron Carlson
NormaLee McMichael
LaVonne Garrison
Lynda Belnap

OTHERS IN ATTENDANCE

Becky Bruso, Governor's Office
Natalie Gordon, State PTA
Paula Plant, Utah State Office of Education
William Lockhart, National Parks & Conservation
Darrell Hafen
Cathy Post, Oklahoma PTA
Margaret Bird, Utah State Office of Education

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Chairman Morris welcomed Board members, Staff, and guests to the meeting. He noted that our Board meeting will be web-cast today. Director Carter stated we are trying to decide whether we have the capability to do video conferencing. We will determine with the Board members after this trial whether we want to do this in the future.

1. Approval of Minutes

With the correction of some typographical errors, the Board approved the Board minutes of September 14, 2006.

Lee / Brown. Motion approved.

“I move we approve the minutes with some clerical changes as noted.”

Roll Call:

Lee - - yes	Scales - - yes
Brown - - yes	McKeachnie - - absent at vote
Morris - - yes	

2. Confirmation of Upcoming Meetings

The Board, without motion, confirmed the upcoming meeting schedule as follows:

November 30 - - Salt Lake City
December - - No meeting

3. Initial Consideration of Appeal of Final Agency Action - Exchange 188 - - National Parks and Conservation Association and William Wolverton, NPCA Member

William Lockhart was in attendance for this item. Tom Mitchell stated he is representing the Staff. The Board has a pending administrative review on an action taken by the agency on remand from the Supreme Court on Exchange 188. This was slowed down in the changing of the agency during that time. The agency has now taken action on it. In doing so, we gave notice to all the parties and gave them the opportunity to review the appraisals. Our action has been to accept the appraisals and did not consider it to be a new action. The petitioners have filed a request for review of that action. Very closely related to that action, the petitioner has filed a petition for rulemaking with the Director, addressing the subject matter arising out of the

3. Initial Consideration of Appeal of Final Agency Action - Exchange 188 - - National Parks and Conservation Association and William Wolverton, NPCA Member (cont'd)

litigation. Since that time, the agency, within the time frame designated, has acted on the petition for rule and denied the petition. There is an appeal of that action that was filed yesterday. The agency stated there is a question of standing, by rule, that this Board should address these issues in a formal hearing and that it comes out of this Board with full review. We recommend that the Board determine whether it has jurisdiction, whether the petitioners have standing, and, to the extent that it be appropriate, to review the petition for rulemaking, that it be considered also.

Mr. Lockhart stated he is an inactive member of the Bar, but is working with attorney Wayne Petty; and it is Mr. Petty's position that the Board hold a formal hearing on this issue.

Mr. Mitchell stated he recommends that the Board appoint a hearing officer if the Board agrees with Mr. Petty that a Hearing Officer should be selected.

Lee / Brown. Motion approved.

"I move that we hear this as a formal matter and that a member of the Board be appointed to handle the matter."

Roll Call:

Lee - - yes	Scales - - yes
Brown - - yes	McKeachnie - -absent at vote
Morris - - yes	

Chairman Morris appointed Mr. Lee to be the hearing officer in this matter.

4. Chairman's Report

a. Beneficiary Report

Ms. Paula Plant noted that we have an opportunity to have an out-of-town guest here today. Kathy Post is the former State PTA President of Oklahoma. She became involved with CLASS the first year it was organized. The beneficiaries thought it would be interesting to have someone else tell the Board about CLASS. Her influence in Oklahoma has been very important. She has been very important in making sure that the schoolchildren in Oklahoma are receiving what they are due and making sure that raids on the fund are not done. She is going to be here to do a cameo in the DVD being made on trust land issues.

Ms. Post stated that in 2001 she started learning about school trust lands at the CLASS conference in Bryce Canyon. She is amazed that our forefathers had the forethought to do something about trust lands. Oklahoma was given Section 16s and 36 at statehood. They were also given five million acres because they have a lot of Indian lands. They are looking at whether they have receive all five million acres or not. They were also granted some extra land, and they know they have not received all of it. The Board consists of the Governor, the Lt. Governor, the State Superintendent, and the Auditor. The Governor appoints one member, who is the president of the Agricultural Board. They have not met for two months because there are some controversial issues on the agenda. She is very interested in our Board and the procedure by which they are appointed to the Board. They have a great land office and have a great working relationship with PTA, the spokesperson for schoolchildren. This last year they were invited around the table to discuss issues. The legislature at one time tried to take oil money to pay teachers' retirement. The legislature is now looking at the permanent trust fund. PTA has to be watch dogs for that. Because of this, there is now an interim study going on. They are working on some land that is on a turnpike and highway. They are wanting to buy this. PTA is saying they prefer a long-term lease. She had to go to the attorney for the land office and ask that they get an Attorney General's opinion if they wanted to sell it. PTA feels very comfortable with the current land commissioner. They attend every meeting and every investment meeting. Ms. Post related some of the stories that have happened in managing school trust lands. She stated she is very excited that Ms. Bird and Ms. Plant went to Oklahoma and taught people about school trust lands.

There were some questions regarding the makeup of the board in Oklahoma. She stated that, since they are elected officials, PTA is trying to work on an educational scenario to help them. Director Carter noted there are many models of board makeups throughout the West - - elected members, boards made up of elected officials, etc. There is approximately \$23.5 billion in the Oklahoma permanent fund. The payout to schools this year is about \$53 million. Chairman Morris thanked Ms. Post for attending.

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4. Chairman's Report (cont'd)

b. Update on Compensation Study

Mr. Morris summarized the status of the compensation study. The surveys have gone out to the private industry. There is a need for some follow-up to encourage recipients to respond to those. Members of the Board will make contacts on this. When we receive those, Fox and Associates will begin to put the information together and make a presentation to the Board and Staff. Director Carter indicated Mr. Fox feels confident that they will have a report in the November meeting. Chairman Morris suggested to Staff that they give Mr. Fox some suggestions on the Development Group contacts.

c. Report on Hunter Access Committee

Director Carter stated the committee met after the last Board meeting and came up with a proposal that has been sent to the Department of Natural Resources Executive Director and the Director of the Division of Wildlife Resources. It had most of the considerations discussed at the last Board meeting. We have not received a reply to this proposal; and, therefore, he hesitates to speak much about it in a public meeting until we receive a response. We are very committed to the fact that the deal that is struck is between us and our respective communities. If there are movements at the legislature to do anything else, the agreement will be off.

Black Sands Report

Mr. Lee updated the Board on the status of this appeal. They have had a conference call among the parties and have agreed to a schedule, and an Order has been signed regarding that schedule. There probably won't be any more action on this issue until February after he has the opportunity to review the briefs that will be filed.

5. Director's Report

a. Follow-up Report to Board Actions

I. Self-Development of Leeds Property

Mr. Drake Howell explained to the Board that, in the September Board Meeting, Staff proposed the self-development of a trust land residential subdivision in Leeds, Utah. Self-development of the Silver Creek Estates subdivision makes sense for the Trust due to the substantial potential returns. The Board asked Staff to include the cost of its own time in the analysis of the potential returns of self-development.

The revised financial analysis includes:

- * Estimated cost of Staff time administering the self-development
- * Estimated cost of ongoing engineering during self-development project
- * Engineer's estimate of the cost of project (approximately \$36,215 per lot)
- * Potential returns of self-development without using a real estate broker

Based upon previous experience in outsourcing construction management, we believe a conservative estimate for Staff and engineering time to self-develop a subdivision is 10 percent of construction costs. Our original pro forma included the cost of real estate brokerage services. However, selling lots in Silver Creek Estates may not require the use of real estate brokerage services due to the desirable nature of the Silver Reef area of Leeds. The Trust may initiate sales without brokerage services and evaluate how lots sell before hiring a broker. The pro forma below summarizes returns with and without brokerage services. The revised pro forma forecasts healthy returns to the Trust.

<u>Self-development and Overhead Costs</u>		<u>Absorption</u>		
		<u>3-year</u>	<u>5-year</u>	<u>7-year</u>
NPV				
Lot Cost	\$36,215	\$8,324,763	\$7,800,678	\$7,302,601
Without Realtor		\$8,386,815	\$8,386,816	\$7,852,339
IRR				
Lot Cost	\$36,215	18%	13%	10%
Without Realtor		23%	16%	13%

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5. Director's Report (cont'd)

a. Follow-up Report to Board Actions (cont'd)

I. Self-Development of Leeds Property (cont'd)

Staff recommends self-development of Silver Creek Estates based on the strong potential financial returns to the Trust. We will carefully monitor the capital situation during the next several months to determine whether construction could start next Spring. Mr. Howell asked for formal approval by the Board for this project.

Mr. Scales asked what kind of IRR would private industry expect from this project? Mr. McBrier stated they probably would expect some where in the 20's. The probable rate in industry is around 15 percent. We have not tried to emulate ours with the private industry, as we are not as aggressive. We generally try to get an IRR in the teens. Mr. Morris stated that a mid-teen IRR is strong enough to attract equity capital. He thinks this falls within that profile. Mr. McBrier stated Staff has had discussions of how we start slow on this project. We want to protect the entitlement, but not be too aggressive in the development.

Lee / Brown. Unanimously approved.

"I move that we accept the recommendation that we self-develop this project."

Roll Call:

Lee - - yes	Scales - - yes
Brown - - yes	McKeachnie - -yes
Morris - - yes	

Discussion on Meeting Minutes/Open Meetings

Chairman Morris stated that in the minutes there is much reference to development values that are discussed. He thinks there is a fine line about what we talk about in open meetings as far as IRR's, etc. He thinks there is information in the minutes that relates to strategy, and possibly we need to discuss whether it should be the open record. Mr. Andrews stated that historically the Board has acted under the Open and Public Meetings Act. The agency, with respect to written documentation, has responded to GRAMA. The Open Meetings Act deals with meetings, and GRAMA deals with documents. Although the agency and the Board have complied with the

5. Director's Report (cont'd)

Discussion on Meeting Minutes/Open Meetings (cont'd)

Open and Public Meetings Act, it only applies to agencies that expend tax dollars. This agency does not do that. As a matter of policy, we have complied with that act. He agrees with doing that. He feels maintaining public openness is a good idea. We don't actually have to do it, however. This comes down to a policy issue as to what level of public availability the Board and agency want for confidential or political sensitive information. GRAMA contains provisions allowing the agency to hold as "draft" information dealing with real estate transactions prior to those transactions' completion. There is also another provision that allows independent agencies to maintain the records if it is necessary to meet the agency's fiduciary responsibility. There is the legal ability under GRAMA to maintain public records as confidential. Would it be useful as a policy matter to keep this information confidential? There is the legal ability to maintain a higher level of confidentiality than we have shown to maintain.

Mr. McBrier noted he has a different perspective on where the agency is now compared to where it was 10 years ago. We now have more flexibility to act more like a private entity. There was much concern about openness and transparency if we were going to start negotiating with the public. He thinks it helps us to discuss these in public so that people don't think we are doing things behind the scenes. We have had very limited experience in people coming in and wanting to use information we have. He is not afraid of letting this information out to the public. There are occasions when it is not appropriate to have written information in the public forum. It is a complex subject, and he is nervous on erring on the side of secrecy.

Mr. Scales asked if there are any times where prior knowledge of transactions has hurt our negotiations? Mr. McBrier stated he doesn't know if it has hurt the agency. People do look at certain rates on transactions we did a while ago. We deal with them on a case-by-case basis.

Mr. Brown asked if there was a compromise as to when the information is released? Director Carter stated that, once a transaction is executed, it becomes a public document. Chairman Morris stated for the first time last month we saw what was strategy on a transaction, and some of our assumptions were potentially made public. There is much information in the minutes regarding IRR, etc. He thinks we need to be sensitive about this.

Mr. McBrier stated the history of the agency is that it was almost created because of a transaction - - the Doyle transaction. How do people show up and object to a bad deal if it is not public at the time of approval? Mr. Andrews stated that the upcoming negotiations are different than those we are actually asking for approval. We need to treat information differently and confidential on those on which we are still negotiating.

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5. Director's Report (cont'd)

Discussion on Meeting Minutes/Open Meetings (cont'd)

Mr. McKeachnie stated he thinks this is a good discussion to have. The question is not what should show up in the minutes, but what should the Board be discussing? The minutes should reflect what is discussed in the Board meeting. Years ago we hired some experts to tell us how to do a better job as a Board. They recommended that the Board should do less of the transactions and more policy-type things. That goes to the wisdom of how we use our time. We sort of let the Staff off the hook because the Board actually makes all the decisions. He thinks the Board should be available in work sessions, etc., to help talk about transactions. The Administration should then make the decision on most of them. There are exceptions to every rule. We are starting to get ourselves in the position of doing their job, and it is showing up in the minutes. We should go back to the report and see if we are using our time to do the things that can best advance the agency.

Mr. Andrews stated that goes to another issue - - what the statutory requirements are for approval of transactions. The statute states this Board is a policy Board to give policy and guidance to the agency and Director. There are some types of transactions on which the Board has to give approval. There is a part of the statute that states “. . . the Director, with the consent of the Board, may enter into joint ventures and other business arrangements. . .”. That has evolved to where all development transactions come to the Board. The question is whether, at some point, the Board wants to revisit the connection with what the consultant says and what the agency has become since that legislation, as to what the appropriate role of the Board is and should things should be changed. The Board indicated they didn't necessarily want to open this to the legislature, but that they could, through policy, decide what the Staff could do.

Mr. McBrier stated we may need to clarify what a joint venture really is - - does our participation on the revenue of our partner constitute a joint venture? Ms. Plant stated that perhaps part of the language existing in the code right now had something to do with the lack of transparency at the time of creation of the agency. She would ask what documents would the beneficiaries be able to see that the public would not? Director Carter stated that protected documents are protected from everyone.

Chairman Morris asked that, if the Board were to step into a total policy role, what would the window of opportunity be for beneficiaries to see information on transactions? Ms. Plant asked what point in time do the beneficiaries understand what is going on and where do they give input?

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5. Director's Report (cont'd)

Discussion on Meeting Minutes/Open Meetings (cont'd)

Chairman Morris asked that Mr. McKeachnie chair a sub-committee to take this discussion into consideration and see if a recommendation can be made as to what should be done. There are two issues - - the Board's role and what information comes into a public meeting. Director Carter stated at least we should consider the Board's policy on public meetings and where they feel it is appropriate to go into a closed session - -have criteria that the Board feels is necessary for closing sessions and instructions as to what type of materials are made public. What should the meeting entail and what should be discussed in the meeting? Mr. Andrews stated we have followed the Open and Public Meetings Act; but it is legal for the Board to state they will generally follow that act, but can, from time to time, have meetings that will discuss strategy, etc., and not be open to the public. Chairman Morris asked if that meeting could be held the same day as the public Board meeting? It was noted it could be done that way.

Mr. McBrier stated that clarity in finality of approval is important. Whatever is approved needs to be clear. In the corporate world, they had real-estate committees that were reported to the Board, but not approved by the Board. It was noted that the "closed session" or strategy session could include whomever the Board wants.

Mr. McKeachnie stated he would be willing to take a look at this issue. He will need Staff help. He stated the Board takes up all the time doing details that are a minor percentage of the income and doesn't spend enough time working on policy issues. Chairman Morris stated Mr. McKeachnie will chair this sub-committee. Mr. Brown will also work on it. Ms. Bird or one of the beneficiaries also will help, as well as some Staff members. We will look for an update on this in early 2007.

5. Director's Report (cont'd)

b. Director's Update on Issues

I. Update on Agency Audits

Director Carter gave the Board an update through a power-point presentation as follows:

- * Legislative audit
- * State Auditor - No material findings. Audit to ensure that our agency had accounted for its transactions properly.
- * Finance Department - - No material findings.
 - * Travel reimbursements
 - * Payments to outside vendors
 - * Review of our year-end processing of payments

Director Carter noted that just because the legislature asked for an update by the Legislative Auditor General's Office doesn't mean it will happen. They set their own schedule, and we don't know if they will give an update to the legislature or not. However, our Fiscal Analyst will probably do some follow-up on some portions of the audit. We don't know if our new appropriation sub-committee will want the same reports as the last one, as the sub-committee will have many different members this year. We have done some research on the Development projects that they cited. Director Carter reviewed our upcoming legislative activities. We will make a budget presentation in early October to the Governor's Office. Before the end of January, we will probably have our first budget hearing before the appropriation sub-committee. Shortly after the elections, we will know pretty much who our sub-committee members will be. We will start immediately after that time working with those individuals. Probably, the first time the topic of the audit will come up will be in the appropriations sub-committee. He thinks the Department of Human Resource Management (DHRM) will be very interested in seeing the results of our salary survey. We will make contact with them before the session. He thinks they will either be neutral or supportive of the study.

Chairman Morris commended the Staff on a clean financial audit.

5. Director's Report (cont'd)

c. FY 2008 Budget Update

- * FY 2008 budget request approved by Board in September
- * Opportunity to acquire additional sixth-floor space did not materialize
- * * \$52,500 in ongoing monies to fund additional rent removed from request
- * * \$40,000 in one-time money to fund office remodel removed from request.

d. Development Group Report

Update on Cross Hollow

Chairman Morris asked for an update on Cross Hollow. Mr. McBrier stated a week ago the buyers had an obligation to close, deliver \$20 million, receive a contract, and in nine months pay \$13 million more. The original money was delivered day before yesterday, and they have 30 days to close with the \$20 million. If they don't do this, the contract will be forfeited.

I. Discussion of Process for Large Joint Venture or Development Agreements

Mr. McBrier discussed this issue with the Board through a power-point presentation as follows:

Our Goals:

- * Develop written process to share with serious developers to guide partnering efforts
- * Obtain Board concurrence
- * Prepare internal guidelines to manage the process

- * Why? This will facilitate our drive to achieve more recurring revenue transactions.

Transaction styles:

- * Sales/ground leases
 - * Large tracts
 - * Small tracts
- * Land development leases
 - * Large
 - * Small

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5. Director's Report (cont'd)

d. Development Group Report (cont'd)

I. Discussion of Process for Large Joint Venture or Development Agreements (cont'd)

- * Land development joint ventures - hybrid
 - * Typically large
- * Vertical improvement joint ventures - pure
 - * Small ventures
 - * Large ventures

Another Perspective:

- * Minor/simple transactions
 - * Small sales/ground leases - low acreage/value
 - * Small development leases - subdivisions
 - * Small vertical ventures - storage, low value, etc.
- * Major/complex transactions
 - * Big sales/ground leases - Cross Hollow, large value
 - * Big development leases (i.e., master-planned communities)
 - * Big land ventures (i.e., industrial parks)
 - * Big vertical ventures (shopping centers, office building, industrial buildings, etc.)

Process for minor transactions:

- * Inform Board of transaction concept - - involves timing discussions and other input
- * Marketing and RFP issued
- * Staff chooses transacting entity/negotiates best transaction
- * Transaction presented to Board for approval - - Consent Calendar or full Board agenda

Process for complex transactions:

- * Important difference between land development and vertical transactions
 - * Vertical transaction
 - * Trust is true partner - - participates at net level and achieves returns only if project is successful
 - * Tenant commitments are critical to financial performance and go/no-go decision unless building is speculative. Most major projects won't proceed without major tenants committed

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5. Director's Report (cont'd)

d. Development Group Report (cont'd)

I. Discussion of Process for Large Joint Venture or Development Agreements (cont'd)

- * Land development lease/venture
 - * Trust not a true partner - participates at gross level - not at net level
 - * Customers are typically the public; i.e., not pre-arranged/found as project unfolds/Trust relies on developer expertise
- * Important similarity - - developer experience, capital, strength, vision compatibility, and reputation are critical.

Process for major vertical improvement transaction:

- * Stage 1 - - Board concurrence on timeliness and transaction character
- * Stage 2 - - Developer selection process - - includes RFQ process followed by formal Board approval of developer - - RFQ details nature of desired transaction/developer requirements, etc.
- * Stage 3 - - Staff selects developer and presents to Board. If approved, developer obtains committed period to develop transaction with staff and present to Board for approval.
- * Stage 4 - - Transaction development - - Staff and developer formalize details/economics of proposed transaction, including tenant commitments, capital structure, pro-forma, etc.
- * Stage 5 - - Final transaction approval - - Board presentation with all details, including final vision, pro-forma, IRR analysis, etc.

Process for major land development transaction:

- * Stage 1 - - Board concurrence on timeliness, transaction character, and goals
- * Stage 2 - - Developer selection process - - includes marketing and RFQ/RFP process. Staff to conduct developer competition on transaction structure and economics. Multiple developers.
- * Stage 3 - - Transaction development - - Staff selects final developer and formalizes details of proposed transaction, with full financial detail.
- * Stage 4 - - Final transaction approval - - Board presentation includes final vision, pro-forma, IRR analysis, developer approval, etc.

5. Director's Report (cont'd)

d. Development Group Report (cont'd)

I. Discussion of Process for Large Joint Venture or Development Agreements (cont'd)

So . . .

- * What are the differences - - why?
- * What is a big/complex transaction?
- * What about all the other details?
- * What exceptions are appropriate?
- * What is this process - - a rule, a guideline, a policy, or something else?
- * Where do we go now . . . ?

Chairman Morris inquired about vertical projects. Assuming they are commercial vertical, if they are all talking to the same tenants, why don't we pick three developers and pick the one that is willing to give us the most? Mr. McBrier stated that, if the game is played that way, we probably would end up with the worst developer - - someone to give up more just to get the deal. Mr. Morris stated he feels that is a good answer, but is not sure it meets the test that we are getting the "biggest bang for our buck". Are there issues of scale - - any developers who are taking lower rates because they have a different scale? He asked Staff to think about this concept. Mr. McBrier stated he thinks our goal here is to hit "doubles" and "triples", not "home runs". How to achieve the optimum return is a challenge. Understanding what the process should be is important.

It was noted that we are subject to the Administrative Rule Act, so we might be forced to have a rule on some issues. Mr. McBrier stated this process is important because the agency has in the future some of its biggest transactions to come.

Chairman Morris stated he would like Mr. McBrier to take this power-point presentation and turn it into a narrative that gives some "guidelines" so that anyone can understand his recommendations.

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5. Director's Report (cont'd)

d. Development Group Report (cont'd)

I. Discussion of Process for Large Joint Venture or Development Agreements (cont'd)

Mr. McBrier noted that possibly the agency should hire an investment banker on these large transactions to set these up like they should be. Chairman Morris stated he thinks what is before the Board is to check to see if anyone disagrees with what Mr. McBrier is suggesting as we transact business in the Development Group. Director Carter noted that the development of this process is very important. He thinks the Board meeting is a poor format for deciding what should be done.

Mr. McBrier stated the goal today was to start the discussion. He will put together some "guidelines", and we will discuss it further in November.

Appearance of Darrell Hafen

Chairman Morris asked Mr. Hafen if he would like to say anything. Mr. Hafen stated the development with Mayor McArthur in St. George opens up a huge opportunity to money and be a real benefit to Utah and the United States. What is the policy of the Board in Washington County where regulations require a structure to be four stories or less? Chairman Morris stated he doesn't think the Board has a view on the planning and zoning of Washington County, but he thinks our Staff is available to discuss with him what we do. Director Carter stated we generally require our partners to comply with local planning and zoning regulations. Mr. Hafen stated he has a great respect for Mayor McArthur. He has problems to deal with. This is a huge opportunity for the state, but he can document this. There is so much he could speak on that needs documentation. He does need to speak with Mr. McEachnie because there are some things that need some action and have been delayed.

II. Dixie Downs Four-Acre Joint Venture With KGA

Mr. Drake Howell discussed this with the Board. The Trust owns a four-acre parcel of land in St. George at the intersection of Snow Canyon Parkway and Dixie Downs. Snow Canyon Parkway connects the City of St. George to the Tuacahn Amphitheater, the bedroom community of Ivins, Snow Canyon State Park, the Entrada golf community, and a regional recreation complex. This four-acre parcel is across the street from a larger nine-acre trust commercial parcel.

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5. Director's Report (cont'd)

d. Development Group Report (cont'd)

II. Dixie Downs Four-Acre Joint Venture With KGA (cont'd)

Several years ago the Trust obtained commercial zoning approval on the four-acre parcel. This parcel, along with the nine-acre parcel, offers the land and best opportunity for commercial development along Snow Canyon Parkway and is suitable for commercial/retail office space that serves the immediate neighborhood.

In February of 2006, the Trust started an RFP process for the two commercial parcels mentioned above. The RFP contemplated the possibility of separate transactions for these parcels. The initial process called for a two-step procedure starting with a request for qualifications. After evaluating all submitters' qualifications, three were selected to continue to the next step, which was the request for proposal. The initial RFP called for submissions containing proposals for either a joint venture or ground lease. Three parties responded to the RFP: Olympic Barrington, IDG Horizon, and Kemp Griffin (later Coldwell Banker Commercial KGA).

After a thorough analysis, Staff made the decision that only a proposal on the four-acre office site would be appropriate to pursue at this time. Kemp Griffin (KGA) was the respondent that was willing to work only on the four-acre parcel. KGA's vision of this parcel features an upscale office and retail complex. The design concept and economics KGA presented were within reasonable parameters. Staff initiated negotiations with KGA which have resulted in the proposed transaction.

KGA - Proposed Partner: KGA is managed by principals Craig Griffin and Stan Kemp (the "Principals") and is unique in its character as both developer and broker. The Principals have proven ability to execute development projects. Currently, KGA is constructing a 10,000-foot retail center in Santa Clara, Utah, with the name of "The Shoppes at Santa Clara". Another Project, "The Shoppes at Dino Crossing", is planned to be an approximately 40,000 square-foot commercial center in east St. George. In addition to its own monies, KGA's capital backing comes from a real-estate syndication group comprised of investors and future tenants of the project. Thus, the tenants of the project will have vested interest in its success and long-term viability.

5. Director's Report (cont'd)

d. Development Group Report (cont'd)

II. Dixie Downs Four-Acre Joint Venture With KGA (cont'd)

As a broker, KGA has national backing through its relationship with Coldwell Bank Commercial, as well as roots in the local economy. The brokerage was recently ranked number eight in the state for production by Utah Business Magazine and the only one in the top 25 based in the St. George area. The principals have a combined experience in real estate totaling 25 years. This experience includes brokering office buildings, retail centers, etc. For example, KGA has over 70 percent market share in new anchored retail centers in the St. George metropolitan area.

The Proposed Project: The proposed project will consist of approximately 40,000 square feet of office and retail use - - approximately 60 percent office and 40 percent retail. Buildings will be one or two stories and have a contemporary southwestern architectural with well-designed landscaping. Ample parking will be provided to ensure a non-congested parking lot. KGA is confident in leasing the buildings in an expeditious manner due to interest already expressed by businesses to locate in this project.

Deal Structure: This transaction is in the nature of a Joint Venture partnership wherein the Trust and KGA will create an LLC (limited liability company) to build and manage the project. The Trust will transfer the land into the LLC at an agreed-upon \$10 per square foot (total value of \$1,829,520), and KGA will contribute an equal value of cash and equity (\$1,549,282 cash and \$280,238 fee equity). The Trust and KGA will each have a 50 percent interest in the LLC. The land will be transferred prior to the construction loan closing. KGA's equity will take the form of the developer fee that the LLC would normally pay.

KGA will be the managing partner in the LLC. As such, KGA will manage the design, development, and construction and be responsible for arranging construction and long-term financing. KGA will be the guarantor on all financing and will sign personally if required. Loans will not exceed a 70 percent loan-to-value ratio. Review and approval of design will be reserved by the Trust. Once the project is completed, KGA will manage the day-to-day operations including leasing and maintenance.

5. Director's Report (cont'd)

d. Development Group Report (cont'd)

II. Dixie Downs Four-Acre Joint Venture With KGA (cont'd)

Financial Analysis: The Board was given a pro forma illustrating 20-year cash flows generated by this project. The cash flow assumes a sale of the project in year 20. In addition to this assumption, many other assumptions are required to build this pro forma. The pro forma shows the project with an IRR of about 13 percent and an NPV of \$2.36 at a 9.45 percent discount rate.

Recommendation: In the absence of KGA's proposal, this property would require a large amount of capital, management time, and risk to develop. KGA's proposal gives the Trust an opportunity to obtain very good returns on asset values that would otherwise be difficult to achieve (meaning, if we sold the asset, returns in the low teens may not be achievable). In addition, KGA has a demonstrated track record of successful development. It is our intent to move forward with the project as outlined. This proposal is in the nature of an "other business arrangement"; therefore, Board approval is requested.

Chairman Morris asked what the guarantor fee is? Mr. Howell stated the financial company requires a guarantee on the loan. It was noted this is the construction loan only. Long-term loans don't require it. We have negotiated this coming out of the fees. Mr. McBrier stated our recent experience has been that they have had to guarantee loans. Chairman Morris asked if we will approve the third-party agreements? Mr. McBrier stated we will. The long-term loan will be \$4.1 million.

Mr. Lee asked if this would fit into the "small" category based on the previous discussion. Mr. McBrier stated it would be a small one. It was noted we always use a 20-year horizon on the sale. Chairman Morris stated most banks use a 10-year. It was noted this would affect our IRR somewhat. These are the types of issues we are talking about internally so that we can get stable on these issues.

5. Director's Report (cont'd)

d. Development Group Report (cont'd)

II. Dixie Downs Four-Acre Joint Venture With KGA (cont'd)

Mr. Howell stated the land is worth about \$1.6 million now. Chairman Morris noted that it is important for everyone to realize that the money is at risk in this transaction. When you do a third-party deal with third-party leverage, if it doesn't work, it can be foreclosed. Mr. McBrier stated we don't necessarily lose the money, but we sustain until they do perform. There will be dilution mechanisms. Mr. Andrews noted the Board is protected under the Governmental Immunity Act for tort actions.

Lee / McKeachnie. Unanimously approved.

"I move we approve the project."

Roll Call:

Lee - - yes	Scales - - yes
Brown - - yes	McKeachnie - -yes
Morris - - yes	

The Board asked for a six-month follow-up on this item.

III. Update on Aman Project

Mr. McBrier reported that we are moving forward on this project. They have formally given us notice of exercising the Option Agreement. We are working with them on the issues on the wash area. We expect to close in three weeks. Mr. McBrier indicated he is not aware that the contractor has started on the vertical development. He is hopeful that it will begin within the next quarter.

Mr. Lee inquired as to the conditions that Aman had to perform to buy the property and what we are doing with those conditions? Mr. McBrier stated it is being put into a final document that will be recorded. The real question is our ability to run a water line to the edge of the property. There are deed restrictions on the frontage that sets some minimums as to what types of uses can occur. Mr. Lee inquired how much it will cost us to put in the water line? Staff noted it will

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5. Director's Report (cont'd)

d. Development Group Report (cont'd)

III. Update on Aman Project (cont'd)

cost about \$120,000. The transaction will have many tenacles extending across the wash to our property. The value of the property facing the Aman property will be high. We are not going to tie the property up contractually. We are not restricting ourselves at all. Mr. Morris inquired as to whether they had anything infrastructure wise that they could deny us down the road? Mr. McBrier stated they have a sewer system on the other side of the project. It probably makes sense that all sewer would be collected at one time coming out of our valley and would include this piece that they are buying from us. We don't deal with this issue in the Option Agreement.

Ms. Bird stated she doesn't understand why they get an extension without a penalty. Mr. Andrews noted those conditions were to closing, not to exercising the option agreement. Mr. McKeachnie asked if we had heard anything about a ground-breaking ceremony? Mr. McBrier stated he was told about this a number of months ago, but has not heard anything since that time. Staff can find out about it. Mr. McBrier stated we are going to get this project closed. We are going to build this resort, and it will add much value to this property.

On the Big Water issues, the Board had questioned another subdivision there. We are turning our attention to the North side of the highway in trying to get ready to build some work-force housing there.

Curt Gordon

Mr. McBrier informed the Board that Curt Gordon has resigned from our office and taken a job with a developer in Washington County. We are sorry to have Mr. Gordon leave. He has been instrumental in executing many of our transactions. He will be able to do some consulting if we need him. We need to work out any conflicts that may arise from this. Mr. Gordon stated it has been a marvelous opportunity to work at Trust Lands the last four years. He has loved the work and thanked the Board for the opportunity to do the work he does. He will always be a trust lands advocate and believe in what we do. Chairman Morris thanked Mr. Gordon for what he has done. There will be some discussion regarding the transition and doing any contracting with him or not.

5. Director's Report (cont'd)

e. Associate Director's Report

I. Land Exchange Update

Mr. John Andrews stated we were successful in getting the land exchange passed by the House on September 22, 2006. We had hoped to get the Senate to pass it before they went out of session, but were not successful in doing that. There is scheduled to be a lame-duck session November 13 - 15, and we are trying to lay the groundwork to have the legislation passed by unanimous consent during that session. We believe we have worked out all the sensitive concerns. There is some chance that the lame-duck session will vary in length depending upon the outcome of the elections. Therefore, there is some concern about how much time we will have in which to work it. We have asked Governor Huntsman to indicate to Senator Bennett that this is high on his list of concerns to get passed. The vote in the House was by unanimous consent.

f. Oil and Gas Group Report

Ms. Garrison gave the Board a power-point presentation on the Oil and Gas Group. She showed the Board a chart showing gas prices at three different hubs and the first-of-the-month price. On October 17, lowest prices of gas were as follows:

NWP Rocky Mountain	\$3.91
Wyoming Pool	\$3.89
Opal	\$3.90.

Our prices are most closely associated with the Opal hub market. We are a closed market here and generally have the lowest pricing in the U.S. We don't have a lot of pipeline options. Gas storage is pretty much full at this point. The "take-out" season is upon us, however. John Scales noted that he feels the storage issue is what is keeping the price of gas low. There was some brief discussion about hedging. It was noted that Ms. Garrison is looking into this issue this year. Mr. Scales noted that, if we do hedging, we should have a production report, which we should have an outside party do.

5. Director's Report (cont'd)

f. Oil and Gas Group Report (cont'd)

Ms. Garrison showed the Board some pictures of a well blowout near Green River. Delta Petroleum, which is drilling a well on trust lands outside of Green River, had an uncontrollable flow on a well. This well is being drilled under a confidential flag, so we don't have information on exactly where it is, what it is, etc. There was an extraordinary amount of pressure in this well, and the blow-out preventor did not hold it because the pressure was so high. The Division of Oil, Gas, and Mining supervises situations like this because they are the regulatory agency in Utah. The location was monitored to make sure there was no escape of gas from the area. A specialty company from Colorado came in to deal with it. They eventually ignited the gas and flared it off. This was dealt with very smoothly and worked out very well.

g. Minerals Group Report

Mr. Faddies gave the Board an update of the Minerals Group through a power-point presentation.

Coal:

- * Book Cliff Field:
 - * Dugout Mine - - September was the first month of full longwall production (279,000 tons). Client desires to leave 120 acres of SITLA coal - - about 1,000,000 recoverable tons (under 3000-ft. cover). By-pass tract.
 - * Westridge - Minor development work. Andalex sold. New owner operates under "Utah American Energy"
- * Wasatch Plateau Field:
 - * Mill Fork Tract (Energy West) remains in full production. Re-aligning main entryways.
 - * Muddy Tract (Arch) - in development. Longwall scheduled for February, 2007. Client indicates desire to lease lower seam on Muddy Tract.

Sand and Gravel:

- * Recent permitting in Northern San Juan County resulted in bonus bids of \$101,000 and \$65,000 for two parcels. Historic producing area. Market a bit thin in this area.
- * St. George market remains strong.
- * Moved first material from Tooele County into Salt Lake market.

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5. Director's Report (cont'd)

g. Minerals Group Report (cont'd)

Other Minerals:

- * Uranium - - client drilling target in the Morrison Formation near southwest edge of San Rafael Swell.
- * Beryllium - - production from Brush Resources increasing, ore stockpiles dwindling.

h. Surface Group Report

I. October Sale Results

Mr. Christy gave the Board a power-point overview of the October 13, 2006, land auction.

- * 19 parcels submitted for sale
 - * 13 Surface parcels
 - * 4 Development parcels
 - * 2 parcels privately owned by USU
- * 13 SILTA parcels sold
 - * 12 Surface parcels
 - * 1 Development parcel
- * Sale Income - - \$6,032,000
 - * Surface - - \$1,882,000
 - * Development - - \$4,150,000
- * \$1,276,980 (26 percent) above appraisal
 - * Surface - - \$990,500 (111 percent) above appraisal
 - * Development - - \$286,480 (7 percent) above appraisal
- * Acres Sold - - 2,046.62
 - * Surface: 1,885.64
 - * Development: 160.98
- * Average \$/per acre paid - - \$2,947.29
 - * High \$/acre paid - - \$25,779.59 - Hurricane East Bench Parcel 1
 - * Low \$/acre paid - - \$225.00 - Green River South Parcel 2
 - * Average \$/acre paid, excluding Development property - - \$998.06

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6. Consent Calendar

Mr. McKeachnie asked that, at the request of Mr. Darrell Hafen, Item 6-a be taken off the Consent Calendar. He noted that Mr. Hafen had urged that the Board not make a decision on this today. However, Mr. Hafen was not in attendance at this point. Mr. McBrier stated that Mr. Hafen has made indications that he actually owns some of these lands. We don't believe he does and the title company doesn't either. Since Mr. Hafen was not in attendance, this was left on the Consent Calendar.

All the Consent Calendar items are approved.

a. Washington City Power Substation Site - - Sienna Hill Development

In reviewing the future power needs for the Sienna Hills development and surrounding areas, the City of Washington power department determined that an additional substation would be needed. For this purpose, the city has approached the Trust with an offer to purchase a 0.89-acre site adjacent to Sienna Hills Parcel 18. To establish the value of this site, the Trust has engaged Rick Smith, a local real estate appraiser, to undertake an appraisal.

Property Involved in Transaction: There is one piece of property involved in this transaction, totaling approximately 0.89 acres. This property is a small isolated undevelopable island between two washes. The parcel fronts Telegraph Road, and access off of this road for any purpose other than a low-traffic volume city facility is highly unlikely. Other than this use, this property would remain fallow open space that has no development value. Rather than locate the substation on developable commercial ground, we recommend selling this piece to the City. It is important to note that this proposed substation will serve as important municipal power infrastructure servicing Sienna Hills. The site is located in the Northeast corner of Section 13, Township 42 South, Range 13 West. Preliminary appraised price is approximately \$1.00 to \$3.00 per square foot.

Proposed Transaction: It is proposed that the Trust engage in a straight sale of this property to the City of Washington. Final sales price will be at appraised value.

6. Consent Calendar (cont'd)

a. Washington City Power Substation Site - - Sienna Hill Development (cont'd)

Conclusion: We recommend that the Trust sell this property to the City of Washington. It should be noted that the City of Washington does not usually solicit sales of properties for this purpose. It has been the standard procedure for the City to ask the Trust to dedicate property for these purposes. This property has no other value for other uses, and it is in the Trust's best interest to sell this site to the City in order to maintain proper power service to our development properties in Sienna Hills. Without the power substation, development at Sienna Hills would not be able to progress. Mr. Gordon noted that the property was appraised at \$125,000. This is about the same price we are selling single-family residences for.

McKeachnie / Lee. Unanimously approved.

"I move that we approve this transaction.

Roll Call:

Lee - - yes	Scales - - yes
Brown - - yes	McKeachnie - -yes
Morris - - yes	

b. Sale of Two Lots (Parcel A and Parcel B) - Ridge Road Business Park

The Trust's Ridge Road Business Park is located in Carbon County, approximately four miles south of Price on SR-10. The Trust fully improved (with water, sewer, gas, power, and fiber optic) and developed the Business Park in 2000 to stimulate economic development in Carbon County. The Trust sold three lots, totaling six acres, in 2000-2001. To date, the Trust has spent \$517,000 to develop the Business Park and has received \$121,000 from those lots sales.

Interest in Business Park lot purchases was lack-luster for five years, reflecting the slow business growth in the Price-Carbon County area. In July 2006, the Trust received an offer to purchase a one-acre lot in the Business Park; and the Board approved the \$25,000 sale at its August, 2006, meeting. The following discusses full-price offers for two additional lots, Parcels A and B, in the Business Park.

6. Consent Calendar (cont'd)

b. Sale of Two Lots (Parcel A and Parcel B) - Ridge Road Business Park (cont'd)

Business Park History: One owner, Tomadakis Investments, has constructed two buildings on his three-acre lot. The first building shell was raised in 2002-2003 and partially occupied in 2003-2004. The remainder of the building was completed and occupied in 2005. A second building shell was erected in 2005. This building awaits identification of a suitable tenant before completion.

The other two lots in the Business Park, sold in 2000-2001 to Uintah Mountain Copper Company and Therma Tech, remain in their initial undeveloped condition. The small-lot portion of the Business Park also contains a coalbed methane gas well. The gas well operator, ConocoPhillips, placed a shed around the well to contain noise and shield the wellhead from Business Park visitors.

Discussion of Development Potential: Industrial development in Carbon County has been painfully slow. The local economy grew sufficiently to occupy existing industrial space; however, only in the last three to four months has there been any real interest in buying land and constructing new facilities.

The Business Park is challenged by limited daily activity and no new signs of growth. We are concerned that the local business community may soon view the Business Park as “failed”, which would discourage potential businesses from relocating into the Park. New activity in the Park, resulting from these two proposed sales and the one-acre sale, will create new momentum and should stimulate more buying interest in the Business Park.

Pricing and Land Values: Development in the Business Park appears to have been constrained by the Trust's land prices. The initial lot sales were made in 2000-2001 for \$20,000/acre for interior lots. For the last two years, the Trust has quoted \$25,000/acre for interior lots and \$30,000/acre for highway frontage lots. Until very recently, interested callers felt those prices were too high. Recent inquiries mention that comparable industrial land closer to Price is priced at \$5,000/acre less. In late September, a commercial appraiser's inquiry confirmed these observations.

6. Consent Calendar (cont'd)

b. Sale of Two Lots (Parcel A and Parcel B) - Ridge Road Business Park (cont'd)

Lot Locations: Separate buyers propose to purchase two Business Park lots, which total 4.3 acres:

- * Parcel A - - The 2.8-acre lot fronts SR-10 and an existing interior road that has utilities in place. The buyer selected the parcel's location for highway visibility, but needed portions of an interior lot for additional space to conduct his business.
- * Parcel B - - The 1.5-acre lot is located on an interior road with utilities in place. The buyer selected the location for its proximity to the well site, which is compatible with his business.

Purchasers and Transactions: The proposed purchasers of the two lots are:

- * Parcel A - - Best Deal Springs is a Wasatch Front wholesaler planning to add a distribution facility in Carbon County to supply the area with spring suspensions and other truck parts. Carbon Economic Development is providing some incentives for the firm's expansion into Carbon County. Best Deal Springs will pay \$80,000 for Parcel A's 2.8 acres. This consists of two frontage acres at \$30,000/acre and 0.8 interior acres at \$25,000/acre.
- * Parcel B - - Jim Henrie's Heavy Hauling is an established Price business that hauls large mining equipment. The firm is outgrowing its present location and needs more space for its equipment and a maintenance shop. Carbon Economic Development is providing some incentives for the small firm's growth. Jim Henrie's Heavy Hauling will pay \$37,500 or \$25,000/acre for Parcel B's 1.5 acres.

Both purchasers will pay their share of closing costs and will work with the Trust to lift the appearance of development in the Business Park.

Land Descriptions:

Township 15 South, Range 10 East, SLM.

Parcel A: Section 9: 2.8-acre lots - - to be described in metes and bounds.

Parcel B: Section 9: 1.5-acre lot - - to be described in metes and bounds.

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6. Consent Calendar (cont'd)

b. Sale of Two Lots (Parcel A and Parcel B) - Ridge Road Business Park (cont'd)

Board approval is requested for the sale of Parcel A and Parcel B.

Mr. Lee did have some questions on this issue. The information states that the Trust has spent \$517,000 to develop the Business Park and has received thus far \$121,000. Is this a bad deal? Director Carter stated this has been a lot slower at developing than we thought. We put some money into base infrastructure and are now happy that we have some things moving on it. One of the problems is that it has happened so slowly that people don't know it is there or think it is a failed industrial park. So we are hopeful that this will make it come alive. Ms. Erler noted that Carbon County has been instrumental in sending buyers to us. Mr. McBrier stated that four or five years ago we were trying to put together industrial parks in areas where we held land and thought it made sense. The market in Price did not meet expectations. This is a different type market than the I-15 markets. We have not gone back to do an IRR analysis, but we will. Mr. Lee stated he would like to see one. Mr. McBrier stated we were hopeful that there might have been some spinoff from the oil and gas industry for businesses here. We do have an excellent land position here. We are not spending much on carrying costs per year. Mr. Lee would like to see a summary of this at the next meeting or so.

This item was approved on the Consent Calendar.

Board Notification:

c. Amendments to SULA's 1010 and 1332 - - Governmental

Pursuant to rule R850-30-1000(2), this is formal notice that the Agency intends to amend the above-referenced special use leases to allow for basic earthwork operations which will include tank ditches, bunkers, trenches, and dug-in positions.

SULA's 1010 and 1332 are governmental leases issued to the Utah National Guard and are used as military training areas. The training currently includes small arms and field artillery training (no live firing), along with field maneuvers for tracked and wheeled vehicles. The leases do not allow for any ground-disturbing activities other than that which takes place from this training. The Guard would like to expand the training opportunities on these two leases to allow for basic earthwork operations; namely, construction of tank ditches, bunkers, and dug-in positions. These activities will impact a relatively small area (less than five acres) of each training area and will be reclaimed in accordance with the lease agreement when the lease terminates.

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6. Consent Calendar (cont'd)

c. Amendments to SULA's 1010 and 1332 - - Governmental (cont'd)

SULA 1010 is located in the southern part of Sevier County and has been used by the Guard as a training area for many years. SULA 1332 is located west of Beaver, Utah, and is a relatively new training area. The legal descriptions of the leases are:

SULA 1010: Township 25 South, Range 4 West, SLM.
Section 36, containing 440 acres (beneficiary is Schools)

SULA 1332: Township 29 South, Range 8 West, SLM.
Section 16, containing 640 acres (beneficiary is Schools)

The training areas are used several times a year by the various Guard units throughout the state. The Guard also has two other trust land leases in the Price and Vernal areas (SULA 1321 and 1322), which already allow for this type of use. There will be no increase in fees as they are currently paying fair-market rental for use of the property and would simply like to expand the uses to broaden their training opportunities.

The Agency believes that this action is in the best interest of the Trust beneficiary.

The Board had no concern with these amendments.

Meeting adjourned at 1:45 p.m.